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**EQUITY EVALUATION IN AN UNDERDEVELOPED  
ECONOMY: THE CASE OF GUYANA**

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**THE CASE OF GUYANA**

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**SECTION I: INTRODUCTION**

This paper is exploratory in its attempt to highlight a plausible set of principles on which an appropriate benchmark can be identified to value equities in Guyana. Given the non-existence of capital markets, the fragmented nature of the country's economy, the historical legacy of authoritarianism where administrative procedures were so pervasive that in addition to imposed distortion in the allocation of resources it discouraged private initiatives. These problems are further compounded by the lack of coherent information on the country's economy which requires reconciliation to adequately inform policy. The task of equities valuation within such a context is awesome. To overcome some of these constraints, a number of stakeholders in the financial system were interviewed in an attempt to calibrate some central propositions on the decision-making process in the financial sector and its likely impact on the valuation of equities. For convenience in this paper, equities are viewed narrowly to include only the holders of financial capital in enterprises, that is the market value of enterprises less the outstanding claims on creditors. Further, given that Guyana is in the process of liberalisation of which financial reform is a significant element, negotiable instruments have to be developed that would facilitate the orderly evolution of the financial system which should promote the productive sectors in the economy. The two major challenges that are likely to interact

and motivate the process are:

- 1 - the level of state involvement in the economy and the tension between public and private interests in financial reform; and
- 2 - the nature and significance of financial evolution in terms of its ability to sustain the process of growth and improving welfare.

It is within this context that the development of capital markets and equity valuation procedures should be viewed, if provisions are to be made to accommodate the welfare enhancing implications of the economy.

This paper pursues the intuition that the real factors affecting the economic cost and value of assets should be the main element in the valuation of equity and for which financial returns on assets should be based. In addition to this section of the paper, section II highlights some major issues on capital theory and equity valuation. Section III highlight some of the major constraints affecting the Guyanese economy, reviewing in particular the performance of the financial sector. Section IV discuss the concepts associated with total economic value which is proposed as the basis for financial valuation of equities in the context of Guyana where the extractive sectors are assumed to be the major source of economic growth over the medium and long term. This is followed by the conclusion in section V.

**SECTION II: CAPITAL MARKET THEORY AND THE PROBLEM OF EQUITY  
VALUATION**

Essentially, the principal task of capital markets is the ownership allocation of a society's capital stock which are assumed to be negotiable instruments such as bonds, equities and treasury bills regardless of its maturity structure even though some writers advocate the inclusion of non-negotiable short-term instruments such as bank deposits. In a market-oriented economy where the prerequisites of:

- (1) Exchange must be voluntary.
- (2) Legal Protection should be guaranteed via an effective property rights system.
- (3) Contracts are implicit in the process of exchange, and
- (4) Information flows are complete.

Once these conditions are satisfied, the real rate of interest is anticipated to provide accurate signals that reflect all the necessary and sufficient conditions required for production and investment decision to coincide inspite of investors flexibility to spread their risks among securities that represent ownership in enterprises' of vastly different activities. Textbook models of Capital Markets are based on Markowitz work (1952) which stress the task of investment portfolio selection and the systematic diversification of risks spreading. Kitchen (1988) summarises the major assumptions associated with Markowitz model as:

- "1 - The return on an instrument adequately summarizes the outcome of investment, and investors visualize a probability distribution of rates of return.
- 2 - Investors base their decisions on just two parameters of the probability distribution function - the expected return and variance of

return. Investors equate risk with variance of return.

- 3 - The investor exhibits risk aversion, so far a given level of risk he prefers the maximum return.
- 4 - The returns on all securities are not perfectly positively correlated."

Moreover, a central tenet of capital market theory is the Efficient Market Hypothesis which is rooted in the Random Walk Hypothesis which postulates that share price movements are random and not correlated on the basis of historical patterns. This approach advocates that stock and bond trading rules based on historical data to forecast future prices are invalid since statistical tests of serial correlation on price trends in successive periods are found to be insignificant. The vast literature on this issue suggest that while financial performance measures such as dividend and other earning yields, the price-earning ratio and the index associated with enterprise growth are significant determinants of equity valuation, they do not offer sufficient information in the determination of the future value of equities. Perhaps, this has been the major motivation why many American financial institutions in the 1980s approach equity valuation by concentrating on enterprises cash flow potential which stress the current market expected price rather than past price trends. Meanwhile, several empirical studies [Sharpe (1963) Cohen and Progue (1967)] have proved the validity of Markowitz model on the basis of several restrictive assumptions to reinforce the basic propositions of the model, namely, that: to reduce risk a diversified portfolio of an economic agent is necessary and a

certain proportion of securities holdings are required given the correlation coefficient between the available securities. Later studies by Sharpe (1964), Lintner (1965) and Mossin (1966) led to the formalisation of the relationship between the expected rate of return and market risk as expressed in the Capital Asset Pricing Model.

The debates in the 1970s while highlighting choices facing individual economic agents given their endowment constraint and the interest rate elasticities implicitly recognised the distinction between individual and institutional investors. Much of the analysis during this period focus on choice-theoretic exercises within the context of partial equilibrium aggregative models to justify particular relationships. In contrast, the 1980s saw the increasing use of general equilibrium models based on inter-temporal-optimization problems directed to macroeconomic formulations which in several cases explored the situation of inactive and missing markets. [Hahn (1990) and Tallman (1989)] A major shortcoming associated with these analyses is the lack of realism and inconsistencies associated with the empirical results. In these studies, the economic agents consumption patterns are assumed to be completely smooth without any variation, yet the rate of interest and asset prices which influence the rates of return are volatile implying that economic agents are risk averters.

Meanwhile, studies on the term structure of interest rates and asset pricing generally specify market clearing conditions on a continuum so that total consumption is equivalent to total output.



In so doing, the real rate of return is inversely related to the discount factor and positively related to the rate of time preference which provide ideal solutions for asset pricing. Under these highly restrictive conditions, the general solution has been a positive term premium on long-term bonds and on the common stock returns relative to short-term riskless assets (Campbell, 1986). Mehra and Prescott (1985) evaluating data on the US economy with regard to the equity premium point out that the premiums are far too large to be consistent with the restrictive assumption implicit in the representative agent model. Moreover, the debate which followed Mehra and Prescott (1985) apprehension on the consistent gaps between the actual asset prices relative to the forecasting asset prices raised questions on need to include other variable which are likely to explain actual asset price behaviour. This situation motivated a range of studies on the so-called 'bubbling-blowing' phenomenon which stressed 'speculative expectations' in the determination of asset pricing in the short-run.

More recently, attention has been directed towards the issue of expectations formation where considerations are given to calculations of the size of possible risk-premia to minimise the possibility of expectation errors. In these exercises the informational content of interest rates are of fundamental importance as an index of efficient price. [Fama (1970), Grossman and Stiglitz (1976), (1980), and Kihlstrom and Minman (1975)].

### SECTION III: THE GUYANA SETTING

In spite of wide discrepancies in the data on Guyana's economy as illustrated in the country reports of the international lending institutions (such as the IMF, World Bank and the IDB) and the various Government of Guyana sources, the economy has grown strongly since 1991 at an average of approximately 7 per cent real GDP per annum. Underlying these trends have been the market-oriented reform measures implemented in 1989 under the auspices of the IMF, World Bank and the IDB. Table 1 show improvements in the behaviour of key selected macroeconomic indicators over the period 1971 to 1993 which are due to the incentive framework and favourable trends in the external environment with regard to the demand for Guyana's export of sugar, rice, gold and forestry. However, while the tendency exist that output in these traditional primary production sectors are plateauing, the major weakness in the management of the economy appears to be the lack of a coherent programme to promote the productive potential of factor inputs. To sustain the relatively strong performance of the economy requires much more than a stable macroeconomic framework and the downsizing of Government activity in the economy as reflected in the data in table 2 on the Central Government current non-interest expenditures which fell from 34.6 per cent of GDP in 1981-85 and 31.7 per cent of GDP in 1986-90 to 23.3 per cent of GDP in 1991-93. These nominal improvements have taken place against the background of the lack of any clear-cut accountability and insufficient absorptive capacity on the part of the Central Government in the

**TABLE 1**  
**GUYANA - SELECTED MACROECONOMIC INDICATORS**

	1971-75	1976-80	1981-83	1984-87	1988-90	1991-93
	(Annual Average Percentage Change)					
<b>Real GDP (at factor cost)</b>	4.0	-0.7	-6.7	0.8	-2.8	7.1
Agriculture	1.9	0.5	0.9	0.3	-7.9	14.1
Mining	-2.2	-5.0	-27.6	7.8	2.0	16.3
Manufacturing	8.9	2.1	-7.7	-3.6	-8.3	10.9
<b>Domestic Expenditure</b>	102.5		(as per-	centage	of	GDP)
Public Sector	35.4	112.1	118.6	113.4	110.0	101.0
Private Sector	67.1	47.5	49.1	56.7	47.2	29.3
Resource Gap	2.5	64.6	69.5	56.6	62.8	71.7
Public Sector Deficit	n.a.	12.1	18.6	13.4	10.0	-0.3
		-19.9	-42.5	-48.4	-34.0	-20.1
<b>Public Sector Savings</b>	n.a.	1.8	-21.5	-25.3	n.a.	n.a.
Central Government	2.5	-6.7	-17.9	-34.9	n.a.	n.a.
Public Enterprises	n.a.	8.5	-3.6	9.6	n.a.	n.a.
Balance of Payments	2.2	-11.5	-25.4	-33.4	--	--
Current Account	-7.1	-19.9	-32.8	-26.2	-33.1	-45.3
Trade Balance	5.5	-1.7	-7.1	-0.2	-0.3	n.a.

Source: Bureau of Statistics, Bank of Guyana, IMF, World Bank IADB Statistics.

implementation of the Government's public sector investment programme. Rather, policy makers are required to make strategic choices on a range of issues: sectoral priorities, employment creation, income distribution, social sector and spatial development among others that are oriented towards the maximum transformation of values.

**TABLE 2**  
**GUYANA: SUMMARY OPERATIONS OF THE CENTRAL GOVERNMENT**  
**(Percentage Of GDP)**

	1981-85	1986-90	1991-93
Current revenue	37.8	37.8	35.5
Current non-interest expenditures	34.6	31.7	23.3
Primary (non-interest) surplus	3.2	6.2	12.0
Interest payments due	27.4	33.4	23.0
Current account deficit (-)	-24.2	-27.2	-11.0
Capital expenditures and net lending	25.8	15.5	12.3
Overall surplus or deficit (-)	-48.8	-37.0	-20.1

Source: IDB (1994).

Guyana's narrow and fragmented economy is predominantly based on the production of a few primary products for export to overseas metropolitan markets. Sugar remains the dominant production activity in the economy accounting for the largest share of value-added, foreign exchange earnings, employment, capital accumulation and the use of the country's best agricultural and infrastructural resources. Rice, the second major agricultural crop, has grown in significance over the years with most of the sales taking place in the Caricom region. Bauxite-alumina production takes place in three enclave mining locations and had been the single most important mining activity in the country, continued to experience

a high level of uncertainty as a result of the dilapidated state of the industry's productive infrastructure and the depressed condition in the world market for the commodity. Meanwhile, the gold sector has been the brightest spot in the economy inspite of the high levels of smuggling which takes place among the medium and small-scale private operations. As a result of Omai Gold Mines Limited operations which came on stream in 1993 gold output increased by approximately 340 per cent. Before the closure of Omai Gold Mines Limited, following the environmental disaster in August, 1995, the value of gold exports accounted for 27.6 per cent of total exports for the first five months of the year. This was the single largest contribution to the country's total exports for the year. Moreover, Guyana's fragile production base requires urgent attention in light of the rapid structural changes taking place globally. As the latter process deepens Guyana would encounter difficulties facing up to the challenges of a competitive environment. Underlining this challenge would be the level of emphasis place on input factor productivity which in the longer run determines the level of the population living standards. Such a task would require the development and pursuit of a feasible industrialisation strategy with the capability to relentlessly pursue greater levels of productivity from existing activities by utilizing more efficient technologies and diversifying into higher value added industrial activity. This task also depends on the structural and socio-institutional features which evolved in the economy such as the capability of the workforce, infrastructure,

education system and public policy decisions. The short and medium-term cyclical factors such as the shifts in the world market prices of primary commodities, international reserves, exchange rates and interest rates while important in creating temporary advantages can create the illusion of prosperity since the bottom-line of any economic system irrespective of its socio-institutional setting is the transformation of values.

Further, given the agricultural orientation of Guyana's economy, the non-existence of an industrial sector and the lack of any programme of industrialization in Guyana, the task of the financial system would be quite different from country's on the onset of industrialisation. The economy is a cash economy with a low degree of financial intermediation and a limited set of financial instruments. The financial system consists of the Central Bank, 7 commercial banks, 4 trust companies, 2 mortgage finance institutions, 49 registered credit unions, 11 registered insurance companies, 25 registered pension schemes and a private non-profit Institute of Small Enterprise Development (IPED) which is likely to be converted into a private enterprise development bank following the dissolution of the government-owned development bank - GAIBANK earlier this year. In spite of the privatisation of the government's 30 per cent share holdings in the Guyana Bank of Trade and Industry - the third largest commercial bank and the opening of two new commercial banks - the Demerara Bank and the Citizens Bank, Guyana's financial system is still dominated by the state. The banking system had been extremely liquid throughout the

1980s with public sector securities constituting the major share of commercial banks assets which crowded out lending to the private sector. Following the implementation of the reform programme in 1989 the share of private sector loans in the banks assets has been rising rapidly as shown in table 3. The portfolio of the commercial banks are highly liquid, as they traditionally follow a conservative practice of lending no more than one-sixth to one-third of their assets while investing heavily in Government Treasury Bills which result in minimal risk exposure. Generally, most commercial banks in the last two years (with the exception of the Guyana National Cooperative Bank) had their operating costs to assets ratio average 4 to 8 per cent per annum; the rate of return on equity average within the range of 70 and 90 per cent per annum which is higher than the inflation rate which average about 20 per cent in the last two years. Most banks also had a doubtful loan portfolio less than 5 per cent. In contrast, the state owned Guyana National Cooperative Bank was confronted with serious financial problems as a result of their non-commercial lending practices and the inadequate supervision of the bank's performance which had induced major losses and capital depletion. Table 3 illustrates that since 1989 the net real credit to the government has been declining dramatically while the distribution to the private sector has remained relatively constant with business self-financing and foreign-financing becoming the norm. Foreign financing emerged largely as a result of the relative stable foreign exchange rate of the Guyana dollar to the US dollar and the

**TABLE 3**  
**GUYANA: NET CREDIT DISTRIBUTION OF THE BANKING SYSTEM**

	1989	1990	1991	1992	1993
				at December 31st	
(In millions of Guyana dollars)					
<b>Total Net Credit</b>	<b>2,884.8</b>	<b>1,317.7</b>	<b>-432.7</b>	<b>266.4</b>	<b>-2,872.1</b>
<b>Extended by</b>					
Monetary authorities	359.5	-1,093.0	-4,174.8	-4,975.4	-14,699.0
Commercial banks	2,370.4	2,655.7	3,563.4	5,263.7	11,684.4
Interbank float	154.9	-245.0	178.7	-21.9	142.5
<b>Use</b>	<b>2,884.8</b>	<b>1,317.7</b>	<b>-432.7</b>	<b>266.4</b>	<b>-2,872.1</b>
Public Sector	1,480.9	-127.3	-3,298.2	-1,511.5	-7,252.5
Central Government 1/	2,070.4	172.9	-616.9	525.2	-8,250.7
Public enterprises	-451.1	-182.8	-1,503.8	-1,343.9	1,054.3
Other public sector	-138.6	-117.4	-1,177.5	-692.8	-56.1
Private Sector	975.2	1,593.5	2,512.8	2,062.3	4,418.9
Other 2/	273.8	96.5	174	-262.5	-181.0
Interbank float	154.9	-245.0	178.7	-21.9	142.5
<b>Sources</b>	<b>2,883.6</b>	<b>1,317.7</b>	<b>-432.7</b>	<b>266.4</b>	<b>-2,872.1</b>
Liabilities to private sector	2,226.5	3,631.1	8,104.9	11,820.9	6,894.4
Liabilities to nonbank financial inst.	296.8	467.5	1,343.0	417.3	-328.6
Deposits on external payments arrears	168.6	-41.3	-170.4	-229.0	-149.0
Net international reserves					
(net of valuation) and other	-549.6	-2561.9	10,954.1	11,499.4	-8,686.8
Medium term foreign liabilities	741.3	177.7	1,201.6	243.4	602.1
(In percent of total)					
<b>Total net credit</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Extended by</b>					
Monetary authorities	12.5	-83.0	964.8	-1867.6	-511.8
Commercial banks	82.2	201.5	-823.5	1975.9	406.8
Interbank float	5.3	-18.6	-41.3	-8.2	5.0
<b>Use</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Public sector	51.3	-9.7	762.2	-567.4	-252.5
Central government 1/	71.8	13.1	142.6	197.1	-287.3
Public enterprises	-15.6	-13.9	347.5	-504.5	36.7
Other public sector	-4.9	-8.9	272.1	-260.1	-2.0
Private sector	33.8	120.9	-580.7	774.1	153.9
Other 2/	9.5	7.3	-40.2	-98.5	-6.3
Interbank float	5.3	-18.6	-41.3	-8.2	5.0
<b>Sources</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Liabilities to private sector	77.2	275.6	-1873.1	4437.3	240.0
Liabilities to nonbank financial inst.	10.3	35.5	-310.4	156.6	-11.4
Deposits on external payments arrears	5.8	-3.1	39.4	-86.0	-5.2
Net international reserves					
(net of valuation) and other	-19.1	-194.4	2531.6	-4316.6	-302.8
Medium-term foreign liabilities	25.7	-13.5	-277.7	-91.4	-21.0
Official capital	-	-	-	-	-

## Notes

1/Excludes special interest-free debenture contributions from the Treasury to the Bank of Guyana to cover exchange rate losses: G\$2.9 billion in 1987, G\$13.6 billion in 1989, G\$8.2 billion in 1990, and G\$31.5 billion as of June 30, 1991.

2/Include counterpart of medium-term external liabilities

Source: IMF (1994)



low rates of interest in the USA which average about 5 per cent between 1991 and 1994 compared to the high real cost of credit at domestic banks which had average lending rates of 33 per cent in 1991, 30 per cent in 1992 and 17.5 per cent in 1993 for loans in Guyana dollars. (See table 4) Meanwhile, looking at the overall

TABLE 4  
GUYANA: SELECTED INTEREST RATES  
(In percent per annum)

	December 31				
	1989	1990	1991	1992	1993
<u>Local rates 1/</u>					
Prime lending rate	36.00	31.00	33.50	25.90	17.45
Bank rate	35.00	30.00	32.50	24.25	17.00
Charge for noncompliance with reserve and liquid asset requirements	9.10	35.00	37.50	29.25	22.00
Treasury bills (91-day)	33.75	28.75	30.89	22.99	15.44
Small savings rate	31.50	27.50	26.18	16.58	9.46
Time deposits					
3 months	32.25	28.13	29.20	18.20	10.9
6 months	33.00	28.50	31.00	...	11.8
12 months	34.25	29.50	31.50	...	12.0
Interest paid on deposits against external payments arrears with commercial banks	33.50	28.50	31.00	22.75	13.00
<u>International rates 2/</u>					
LIBOR 3/	9.28	8.31	5.99	3.86	3.38
Treasury bill rate					
United Kingdom	13.05	14.08	10.96	8.94	4.81 4
United States	8.11	7.51	5.41	3.46	3.08
Canada	12.05	12.81	8.73	6.58	4.00
Jamaica	19.10	26.21	25.56	34.36	23.47 5
Trinidad and Tobago	7.13	7.50	7.67	9.26	9.44 6

1/ End of period.

2/ Period of average.

3/ Three-month U.S. dollar deposits.

4/ November 1993.

5/ July 1993.

6/ September 1993.

Sources: Bank of Guyana; and IMF, International Financial Statistics.

performance of the financial sector, the major share of credit went to the distribution sectors in contrast to the production sectors reflecting another aspect of the many deficiencies in the financial system.

A major initiative to overcome some of these constraints associated with the financial system particularly with regard to the developing and managing the information flow is the development of the institutional framework. The Financial Institutions Act 1995 which was approved by Parliament in April, 1995 attempts to streamline the financial system which was governed by a set of outdated and inadequate legislation. Under the new Act all institutions providing banking and financial services must be licensed by the Central Bank and would be supervised by the Bank of Guyana. Prior to the new legislation Trust Companies, Credit Unions, Pension Schemes among other institutions that compete with the commercial banks for deposits were not subject to Central Bank supervision. Similarly, the state owned non-bank financial institutions were expected to be supervised by the Cooperative Finance Administration which was disbanded under the new Act. In addition to its attempts to enhance the liberalisation of the financial system the new Act is expected to assist in developing new financial instruments to 'mop-up' the high level of liquidity existing in the financial system.

**SECTION IV:       ARTICULATING AN EQUITY VALUATION BENCHMARK FOR  
                  GUYANA**

The Government of Guyana in January 1994 established a Call Exchange at the Bank of Guyana, as the first stage in a three step approach towards the introduction of a Stock Exchange. The other two proposed stages involve institutional strengthening and the implementation of specific regulatory activity. To date, there are twelve members of the exchange on which twelve companies are listed. Trading activity can be described as moderate with a market capitalisation estimated within the range of between US\$30 million and US\$50 million. At the current stage of its operation the Call Exchange faces a high level of uncertainty regarding its viability and the termination of the possibility of its transformation into a Stock Exchange. Moreover, it should be recognised that no other country with an economy the size, structure and pathologies of Guyana has a stock exchange. Nevertheless, in an effort to create the necessary channels for the provision of long-term finance and enhancement of capital formation a stock exchange can be a useful institution. At the current stage in its evolution, information and transparency are important goals. Evidently, the valuation of equities is an essential element in this process if alternative choices about the ownership structure of the society's wealth are to be considered.

More importantly, given the current stage of Guyana's economic development and the state of the financial system, it would arguably be an advantageous option for policy-makers if information

is available on the type of enterprises capable of deepening the Call Exchange System. Hence, gauging equity values is a tough task given the high level of integration of capital markets and the problems associated with comparing stocks in different industries especially across countries with different accounting standards. In Guyana's context it would be difficult to compare domestic enterprises with the prime interest rate in the USA or Europe since no Guyanese enterprise would qualify. As a result some of the commentators interviewed advocate that perhaps the most appropriate comparative interest rate could be the rate paid on junk bonds in the USA. How justifiable is this proposition is open to debate until appropriate empirical work becomes available. It should also be noted that in the majority of cases Guyanese firms gains access to finance with property being used as collateral. These conditions obviously impose a range factors that must be considered in the valuation of equities in Guyana.

In light of the foregoing analysis, if it can be assumed that the contribution of the agricultural sector to output growth would be constant at its current rate while the mining and timber sectors are likely to be the main propelling sectors in the future growth of the economy. Then if we further assume that most of the enterprises likely to participate in the equity market are firms in these two extractive sectors, it would be plausible to derive a quasi-uniform index for valuation based on the total economic value of these firms equity in these sectors. This would appear to be more realistic in the context of Guyana's quest for development.

The concept of total economic value is increasingly being used in environmental economics which Pearce (1994) has defined as the sum of the 'use value' associated with the use of physical resources added to the 'option value' which refers to the risks associated in undertaking a particular activity versus the next best alternative use and the future returns attainable from the resources. These two components are then added to the 'existence value' which captures the likely inter-generational motives associated with the assets. Then with some modifications we can postulate the enterprise value (EV) associated in the two extractive sectors as:

$$EV_n = V_o + V_t + V_r \quad \dots (1)$$

$$\text{where } V_o = \sum_{t=1}^n \frac{U_t Q_t}{(1+r)^t} \quad \dots (2)$$

$$V_t = (s_t - c_t) R_t = U_t R_t \quad \dots (3)$$

$$V_r = R_t - D_t \quad \dots (4)$$

$$D_t = R_t [1 - 1/(1+r)^{n+1}] \quad \dots (5)$$

where

$EV_n$  is Enterprise Value of the firm by origin

$V_o$  is the use value

$V_t$  is the option value

$V_r$  is the existence value

$U_t$  is the Utility function associated with the use of resources over time  $t$

$Q_t$  is the Output of the firm over time  $t$

$r$  is the real interest rate on the life of the assets used over time  $t$

$s_t$  is the marginal revenue over time  $t$

$c_t$  is the marginal cost over time  $t$

$R_t$  is the level of retail earnings by firm's over time  $t$

$D_t$  is the level of depreciation or replacement investment that occur at a constant rate over time period  $t$ .

On the basis of the above equations it is anticipated that the financial and economic values can coincide that would reflect market clearing positions while simultaneously highlighting the value of capital accumulation. More importantly, this approach relinquish some weight on the role of regulation and the problems associated with increased interest rates. Several observers have pointed out the ambiguous outcomes of financial liberalisation associated with the orthodoxy of high real rates of interest that does endanger structural reforms on the real-side of the economy. Rodrik (1990) and Taylor (1988) among others have consistently argued that increased real interest rates aggravate the cost structures of firms facing a contracting domestic demand as a result of devaluation. However, in Guyana's case the major dilemma had been the problems associated with financing imported inputs given the structure of enterprises production activities and the response of commercial banks to such situations as pointed out

above. In light of these considerations, the government's role within the above model might more usefully serve in monitoring the compliance of firms to rules rather than attempting to imposing regulation. From this vantage point the government might be much more capable in monitoring the leakages from the economic system.

#### **SECTION V: SOME CONCLUDING REMARKS**

Expanding the volume of assets in any economic system also creates greater competition for liabilities. Rodrik (1990) point out that in many developing countries where public deficits are large, governments are forced to raise interest rates on its bills and bonds which often stimulate inflationary pressure in the economy. Under these conditions stabilisation becomes more complex when the desire of policy makers is to sustain the growth process rather than merely 'getting prices right'. In this context policy makers in developing economies have often been under pressure to establish the coincidence of balance between the real and monetary sectors within the framework of economic reform while sustaining growth. Given these conditions the propositions raised in this paper attempt to identify the possibility of pursuing some degree of consistency and credibility in microeconomic and macroeconomic policy for the attainment of a stable path in the pricing of equities necessary for the promotion of investment in an underdeveloped economy.

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